



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

March 28, 2019

Financial Audit Management Report

Laura Jackson, Executive Director / State Fiscal Officer
Mississippi Department of Finance and Administration
P.O. Box 267
Jackson, Mississippi 39205

Dear Ms. Jackson:

Enclosed for your review are the financial audit findings for the Mississippi Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2018. In these findings, the Auditor's Office recommends the Mississippi Department of Finance and Administration:

1. Strengthen Controls Over Segregation of Duties in the Statewide Payroll and Human Resource System.
2. Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System.
3. Strengthen Controls Over the Accounting Period Close Process.
4. Strengthen the Process for Compiling the Comprehensive Annual Financial Statements and the Schedule of Expenditures of Federal Awards;
5. Implement Written Policies and Procedures Related to Accounting and Reporting Matters;
6. Strengthen the Process for Recording Interagency Transfers, Payables and Receivables;
7. Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training;
8. Strengthen Controls Over Segregation of Duties within MAGIC;
9. Ensure Software Updates are Applied Timely and Should Perform a Detailed Risk Assessment for the End of Life Components of the Statewide Payroll and Human Resource System.
10. Strengthen Controls Over the Security Audit Log of Mississippi's Accountability System for Government Information and Collaboration (MAGIC);
11. Strengthen Controls over Policies and Procedures Related to Journal Entry Approval;
12. Strengthen Controls Over the Vendor Master File and Issuance of Payments to One Time Vendors; and
13. Strengthen Controls Over Cash Reconciliations.

Please review the recommendations and submit a plan to implement them by April 11, 2019. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Finance and Administration's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Department of Finance and Administration's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Finance and Administration to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Finance and Administration throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie C. Palmertree, CPA CGMA
Director, Financial Audit and Compliance Division
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Mississippi for the year ended June 30, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Stephanie Palmertree, CPA; Donna Parmegiani, CPA; Jason Ashley; Michael Torres, CPA; Thomas Wirt, CPA; Philip Chu, CPA; Kortney Gaddy, CPA; Jeremy Miller, CPA; Clayton Southerland, CPA; Michael Walker, CPA; Alan Jarrett; LaSabre Charleston; Brianna Dang; Veronica Funchess; Kari Horn; Carrie Middleton; and Elevia Tate.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of the State of Mississippi's comprehensive annual financial statements, we considered DFA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of DFA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following paragraphs, we identified certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified in this letter as items 2018-007, 2018-008, 2018-016, 2018-021, 2018-022, 2018-23, 2018-024, and 2018-030 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified in this letter as items 2018-009, 2018-020, 2018-032 and 2018-033 to be significant deficiencies.

In addition, we noted certain control deficiencies involving internal control that require the attention of management. These matters are listed under the heading **OTHER CONTROL DEFICIENCY** as item OTH 18-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the State of Mississippi are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that require the attention of management.

MATERIAL WEAKNESSES

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2018-007	<u>Department of Finance and Administration (DFA) Office of Mississippi Management and Reporting System (MMRS) Should Ensure Agencies Review User Access, at Least Quarterly, to Determine that Appropriate Security Access has been Granted According Based on Job Responsibilities and Should Strengthen Controls Over the Segregation of Duties in Statewide Payroll and Human Resource System (SPAHRS).</u>
Repeat Finding	No.
Criteria	<p><i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specifies that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.</p> <p>Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. At a minimum, the following functions are considered incompatible for proper segregation of duties:</p> <ul style="list-style-type: none">• Custody• Authorization or approval• Recording or reporting <p>When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within SPAHRS to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.</p>

Additionally, COSO specifies that proper monitoring must be present in order to ensure compliance with internal control objectives. Monitoring activities include requiring routine reviews of internal control policies to guarantee adherence to policies and procedures.

Section 7-7-3 of the Mississippi Code of 1972, Annotated states, in part, that the Department of Finance and Administration shall require each state agency to maintain a system of continuous internal audit covering the activities of the agency. Furthermore, DFA is responsible for prescribing rules and regulations for statewide accounting and accounting systems.

The State of Mississippi's Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 30 – Internal Control states that each state agency implement a system of internal control in accordance with the principles of COSO and that those controls should be assessed by the agency on a regular basis.

Condition

During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRS), we noted the following:

- MMRS did not require agencies to perform regular reviews of user access for agency personnel.
- MMRS personnel granted access to SPAHRS for new hires without proper agency signatures authorizing access. *Incomplete Documentation*
- User access for the human resource/recording function and the payroll/authorization function were not properly segregated for employees of DFA.

Cause

There are inadequate controls surrounding SPAHRS user access, monitoring, and segregation of duties.

Effect

Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of misappropriation of assets, inappropriate changes to data or files and both unintentional and intentional unauthorized activity which can result in misstatement of financial position. Additionally, with the augmented risk of misstatements of financial position, the need for timely and accurate reviews and appropriate control monitoring increases significantly

Recommendation

We recommend the Office of Mississippi Management and Reporting System (MMRS) implement a policy to require agencies to submit a certification, at least quarterly, that the agency has reviewed user access and that access has been granted appropriately based on job function. Additionally, we recommend MMRS not process applications for access unless proper authorization has been assured and strengthen overall controls over the segregation of duties for those authorized to use SPAHRS.

2018-008

Department of Finance and Administration Should Strengthen Controls Over the Change Logs of the Statewide Payroll and Human Resource System (SPAHRS).

Repeat Finding No.

Criteria Good internal controls dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail, or security audit log, documentation should include evidence on how transactions are initiated, processed, recorded, and summarized. Proper audit trail documentation also includes evidence of transactions that may have been voided, deleted, or changed after approval and initiation. A “change log” should also be maintained that summarizes any changes, especially those in the production environment. Periodic reconciliations between the change log and a list of approved changes should be performed to ensure all changes have been approved and authorized.

Condition During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRs), we noted the following:

- Security logging was not enabled in the Natural Security log settings.
- Reconciliations between approved changes and changes occurring in the change log are not being performed.

Cause There are inadequate controls surrounding SPAHRs security logging.

Effect Failure to adequately log transactional changes and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.

Recommendation We recommend that the Department of Finance and Administration enable the Natural Security logging functionality and strengthen controls over the periodic review of such logs.

2018-016 Department of Finance and Administration Should Strengthen Controls Over the Accounting Period Close Process.

Repeat Finding No.

Criteria *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control activities should exist to ensure an effective internal control system exists. Part of ensuring effective control activities is to develop controls and processes over technology. These controls should ensure proper execution of transactions. This includes ensuring transactions are properly recorded in the correct period and that controls exist to ensure transactions cannot be posted to a period that has been closed.

The State of Mississippi’s Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 30 – Internal Control states that each state agency implement a system of internal control in accordance with the principles of COSO and the Green Book, which includes having proper control activities.

Condition The Department of Finance and Administration (DFA) is responsible for ensuring proper controls are in place surrounding the accounting functions and operations of the statewide accounting system – Mississippi Accountability System for Government Information and Collaboration (MAGIC). Monthly, DFA performs an accounting period close in MAGIC to ensure all transactions are recorded in the proper accounting and budget period. Once the period is closed in the system, no entries or transactions can be recorded in that period.

The monthly accounting close process is essential at the end of the fiscal year during the GAAP packet preparation period to ensure transactions are recognized in the correct accounting year. After the twelve months of the fiscal year have been closed, agencies prepare their journal entries to record additional entries for the State's Comprehensive Annual Financial Report (CAFR) preparation. This process is recorded in the thirteenth accounting period. Additional entries are recorded for CAFR presentation by DFA in the thirteenth through sixteenth accounting periods.

During our testwork of the financial close and reporting process, we noted the thirteenth accounting period was re-opened and then not closed. During this time, accounting entries were mistakenly booked in the wrong period causing changes to already established end of the year account balances. Moreover, DFA did not realize the entries were booked in the wrong accounting period until auditors brought it to their attention.

Additionally, DFA did not have adequate documentation of responsibilities for the closing of the thirteenth through sixteenth periods through written policies and periodic reviews of the entries made.

Cause DFA did not have adequate controls, policies, or review surrounding the close of accounting periods.

Effect Failure to ensure transactions are recorded in the proper period could result in misstated financial statements. Lack of controls around the financial closing process increases the risk for materially misstated financial statements and misappropriation of assets.

Recommendation We recommend the Department of Finance and Administration strengthen controls and document their policies regarding the process and responsibility for closing accounting periods thirteen through sixteen. These policies should allow management to effectively monitor the closing process. Management should review the process in a timely manner to ensure transactions are being properly executed.

2018-021 The Department of Finance and Administration Should Strengthen the Process for Compiling the Comprehensive Annual Financial Statements and the Schedule of Expenditures of Federal Awards

Repeat Finding Yes; 2015-030, 2016-010, and 2017-001; Material Weakness Findings

Criteria

Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for post auditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end.

In addition, the Single Audit Act requires the State to issue the Single Audit Report within nine months of fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the Schedule of Expenditures of Federal Awards (SEFA) are both required to be included in the Single Audit Report and both are an integral part of the financial audit of the State. The failure to timely complete the CAFR could also hinder the timely submission of the Single Audit Report which could result in the suspension of federal discretionary drawdowns.

Condition

The Department of Finance and Administration (DFA) was unable to provide the Office of the State Auditor with the necessary financial information to perform the audit of the CAFR within six months of the close of the 2018 fiscal year. Further, reporting issues at various individual state agencies as well as DFA's current financial reporting process has hindered the ability of DFA to prepare a complete CAFR timely. The process is overly dependent on the post-audit program being a part of the internal control over financial reporting even though good internal controls state that the post-audit function should not be an internal control mechanism for any operational activity related to financial reporting. After financial packets were received from state agencies and reviewed by DFA, errors were noted by auditors that required adjusting journal entries to correct.

Other issues that required the financial information to be delayed included:

- Significant errors in the recording of interagency receivables and payables (see finding 2018-023 for more detailed information);
- Significant delay in receiving information regarding Other Post Employment Benefit Information from DFA Insurance;
- Lack of cohesive and updated financial accounting procedures statewide (See finding 2018-022) and
- Inaccuracies in financial reports produced by agencies.

It should be noted that the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) obtained an extension for the CAFR from GFOA this year due to significant turnover in executive and management level personnel in state agencies.

Cause

Over reliance on the accounting knowledge and expertise of the centralized accounting functions at DFA - OFR. See finding 2018-024 for additional information regarding this area.

Effect

The failure of DFA-OFR to compile financial and federal award information accurately and in a timely manner resulted in the CAFR not being published in

accordance with state law and hindered the efficiency of the audit of the State of Mississippi's financial statements. In addition, these delays could result in the state not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood that credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.

Recommendation We recommend the Department of Finance and Administration implement procedures to ensure the timely compilation of financial and federal award information in order to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

2018-022 Written Policies and Procedures Should be in Place Related to Accounting and Reporting Matters

Repeat Finding Yes; 2015-031, 2016-009 and 2017-002; Material Weakness Findings

Criteria *Section 27-104-3 Miss. Code Ann. (1972)* requires that the Department of Finance and Administration (DFA) prepare and issue a comprehensive reference manual or manuals of policies and procedures for each state agency and department to use, which may include chapters on various fiscal responsibilities, and maintaining financial records and preparing financial reports. DFA is also responsible for updating the manual(s) on a continuing basis.

Historically, DFA provided agencies with the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual, which provided agencies with policies and procedures related to the accounting system, input documents, output documents, internal control procedures, and accounting and reporting matters.

As of the end of fiscal year 2017, DFA has begun the process of rewriting sections of the MAAPP manual it was not completed at the beginning of fiscal year 2018.

Condition During our review of the internal control environment for fiscal year 2018, we noted that the MAAPP manual has not been fully updated since the implementation of the Mississippi Accountability System for Government Information and Collaboration (MAGIC) on July 1, 2014, and does not consider system and accounting procedures specific to the MAGIC environment.

DFA stated that the MAAPP manual is a "living document" and is never fully completed; however, all information left over from the manual prior to MAGIC implementation had been revised as of December 2018 – six months after the beginning of fiscal year 2018.

During the course of the audit, auditors frequently referred to the MAAPP manual to verify control procedures and written policies, only to find links commonly missing or out of date. Information provided to agencies regarding the financial close procedures referenced sections of the MAAPP manual that no longer existed and some sections saw drastic changes in the detail of information provided.

Cause	As of the beginning of the fiscal year under audit, DFA had not updated the MAAPP manual to reflect new policies and procedures since the implementation of MAGIC.
Effect	Failure to have an adequate policy and procedure manual governing statewide accounting policies and procedures could result in misappropriation of assets and material misstatements in financial statements. Additionally, lack of easily understood and detailed policies could lead to the continued over reliance of statewide personnel on the knowledge and expertise of DFA Financial Reporting staff.
Recommendation	To minimize the risk of financial misstatements and system security compromise, we recommend DFA update the MAAPP manual to ensure relevance of policies and procedures related to the accounting and internal control procedures in the statewide accounting system.

2018-023	<u>The State of Mississippi Should Strengthen the Process for Recording Interagency Transfers, Payables and Receivables.</u>
-----------------	--

Repeat Finding	Yes; 2016-011 and 2017-005; Material Weakness Findings
Criteria	<i>Section 27-104-3 Miss. Code Ann. (1972)</i> requires that the Department of Finance and Administration (DFA) prepare and issue a comprehensive reference manual or manuals of policies and procedures for each state agency and department to use, which may include chapters on receipts, warrants and expenditures. DFA is also responsible for updating the manual(s) on a continuing basis.
Condition	During testing for fiscal year 2018, we noted inconsistencies in the way differing state agencies accounted for interagency payables, receivables and transfers. We also noted that, due to these inconsistencies, the Department of Finance and Administration (DFA) were required to make reclassification and adjusting journal entries of approximately \$450 million in order to ensure material misstatement of the financial reports did not occur.
Cause	Lack of governing policies regarding the recording of interagency payables, receivables, and transfers. Additionally, lack of overriding controls in the statewide accounting system.
Effect	The failure of the State to require consistency in the accounting treatment of payables, receivables and transfers could lead to material misstatement of the Comprehensive Annual Financial Report.
Recommendation	We recommend the Department of Finance and Administration implement overarching policies and procedures regarding interagency transfers, payables and receivables and communicate these policies to state agencies.

2018-024	<u>The State of Mississippi Should Require Chief Fiscal Officers of State Agencies to hold Minimum Accounting Qualifications and Attend Mandatory Training.</u>
-----------------	---

Repeat Finding Yes; 2016-012 and 2017-006; Material Weakness Findings

Criteria *Section 7-7-3 Miss. Code Ann. (1972)* states that the State Fiscal Officer (as defined by *Section 21-104-6 Miss. Code Ann. (1972)* as the Executive Director of the Department of Finance and Administration) shall conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the statewide accounting system.

Section 7-7-211 Miss. Code Ann. (1972) authorizes the State Auditor to establish training course and programs for the personnel of the various state and local governmental entities. These courses shall include, but are not limited to, topics on internal control, purchasing and property, governmental accounting and financial reporting, and internal auditing.

The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when there is a commitment to competence that demonstrates a commitment to retain competent employees. This principle of competency can be achieved through analysis of skills required for positions, training and development training.

Condition During testing for fiscal year 2018, we noted, through inquiry and observation, that the overall expertise level of accounting staff in various state agencies was not consistent, and that job requirements often did not specify applicants hold any specific accounting or governmental knowledge. We also noted that, although the Department of Finance and Administration (DFA) held GAAP conversion and accounting training courses to aid state agencies in compiling financial information, it was not a mandatory requirement and often agency personnel did not attend. Likewise, qualification and skill requirements were not consistently applied to Chief Financial Officers throughout the various state agencies.

The lack of overall understanding and application of proper accounting standards required the centralized accounting function of the state, DFA, to prepare significant adjusting and reclassification entries in order to prevent material misstatement. While the majority of entries would not have materially misstated accounts individually, in the aggregate, without adjustment, the financials would have been materially misstated.

Cause Lack of consistently applied agency qualifications for accounting personnel.

Effect The failure of the State to hire and retain competent staff could result in material misstatement of the financial statements.

Recommendation We recommend the Department of Finance and Administration implement mandatory training sessions for accounting personnel and Chief Fiscal Officers. Additionally, we recommend the State of MS implement minimum qualifications for Chief Financial Officers.

2018-030 The Department of Finance and Administration Should Strengthen Controls Over the Certification of MAGIC User Segregation of Duties.

Repeat Finding Yes; 2015-029, 2016-008, and 2017-027; Material Weakness Findings

Criteria *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.

Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. At a minimum, the following functions are considered incompatible for proper segregation of duties:

- Custody
- Authorization or approval
- Recording or reporting

When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within MAGIC to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.

The Corrective Action Plans submitted in the fiscal year 2015, 2016 and 2017 audits of the Department of Finance and Administration (DFA) indicated that DFA personnel would require and certify that agencies had completed quarterly access reviews.

Condition During testwork performed for the fiscal year 2018, we noted the following:

- DFA did not provide adequate MAGIC role definitions for the agencies to identify segregation of duty conflicts;
- DFA provided agencies with an incomplete listing of business roles, instead providing some user information as business privileges that contained multiple business roles that were not identified to the agency;
- DFA did not obtain quarterly security certifications for all agencies;
- DFA did not follow up with agencies requesting responses from certifications in a timely manner; and
- DFA's internal tracking document used to maintain and track quarterly certifications received by the agencies contained errors stating agencies had returned certifications when, in fact, they had not.

Cause There are inadequate controls surrounding MAGIC's user access, monitoring, and segregation of duties.

Effect	Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of misappropriation of assets, inappropriate changes to data or files and both unintentional and intentional unauthorized activity which can result in misstatement of financial position. Additionally, with the augmented risk of misstatements of financial position, the need for timely and accurate reviews and appropriate control monitoring increases significantly. Further, such situations increase the need for additional documentation, outside monitoring, manual review, and external verification of MAGIC activities and transactions.
Recommendation	We recommend that the Department of Finance and Administration (DFA) take the necessary steps to ensure user access is granted to all users under the "least privilege" principle and ensure that agencies are performing at least quarterly user access reviews of all user access (including contractors) to their business area. Agencies should certify to DFA that they have completed user access reviews at least quarterly. We additionally recommend that DFA develops a mechanism to ensure that agencies are complying with quarterly access review recommendations.

SIGNIFICANT DEFICIENCIES

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2018-009	<u>Department of Finance and Administration (DFA) Office of Mississippi Management and Reporting System (MMRS) Should Ensure Software Updates are Applied Timely and regularly, and Should Perform a Detailed Risk Assessment for the End of Life of Components of the Statewide Payroll and Human Resource System.</u>
Repeat Finding	No.
Criteria	<p><i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specify that a satisfactory control environment is only effective when control activities, such as business continuity, and application security, exist and are effective.</p> <p>Business continuity controls require risk assessment of information technology to determine the life of application software and hardware, and to perform risk assessments of end of life software and its continued ability to function and meet current objectives, while planning for a critical failure.</p> <p>Additionally, programs and systems should be appropriately managed to prevent unauthorized modifications and errors, and to ensure accurate, complete, and valid processing of financial information continues.</p>
Condition	During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRs), we noted that no formalized end-of-life plan has been developed for critical system software.

Cause	There has not been a risk assessment for end-of-life software performed for SPAHRS systems.
Effect	Failure to adequately plan for end-of-life software could led to business interruption, and could lead to critical systems malfunctioning and processing financial information incorrectly.
Recommendation	We recommend that the Department of Finance and Administration and the Department of Information Technology prepare a risk assessment of the life cycle of the SPAHRS system and prepare a formal end-of-life plan.

2018-020 The Department of Finance and Administration Should Strengthen Controls Over the Security Audit Log of Mississippi's Accountability System for Government Information and Collaboration.

Repeat Finding Yes; 2015-027 and 2017-028; Material Weakness Findings

Criteria Mississippi's Accountability System for Government Information and Collaboration (MAGIC) serves as the centralized statewide accounting system. State agencies utilize MAGIC on a daily basis as the State's general ledger necessary to prepare financial statements and related footnote disclosures in accordance with generally accepted accounting principles.

Good internal controls dictate that all transactions and other significant events be clearly documented and readily available for examination. This audit trail, or security audit log, documentation should include evidence on how transactions are initiated, processed, recorded, and summarized. Additionally, proper audit trail documentation also includes evidence of transactions that may have been voided, deleted, or changed after approval and initiation. These audit logs must be reviewed on a semi-regular basis to evaluate whether inappropriate transactions or access has occurred in the system.

Inherent in the MAGIC system is a security audit log. This log records the following:

- Successful and unsuccessful dialog logon attempts
- Successful and unsuccessful transaction starts
- Successful and unsuccessful report starts
- Changes to user master records

Subsequent to the release of the 2015 CAFR, DFA turned on the audit logging functionality in the MAGIC system. However, the system logged every keystroke and the log file quickly became too burdensome to review or to maintain. DFA determined that the audit logging function was not serving the intended purpose and discontinued logging. Audit logging was turned back on during the fourth quarter of fiscal year 2018.

Condition During testwork performed for the fiscal year 2018 audit, we noted the following exceptions:

- Security audit logging functionality was not enabled for the MAGIC system for three quarters of fiscal year 2018; thereby eliminating the ability to monitor transactional changes in the MAGIC system.
- There is no formal documented review of the log files that were generated when the system was enabled during the last quarter of the fiscal year.

Cause	DFA stated that prior instances of enabled log access generated too many log results that were not useful or beneficial. DFA further stated that reviews are being conducted of current log files; however, DFA could not provide evidence of said reviews.
Effect	Failure to adequately log transactional changes and to periodically review logs for appropriateness could result in untimely modification of data, security configuration changes, or fictitious transactions.
Recommendation	We recommend that the Department of Finance and Administration enable the exception security audit log functionality in Mississippi's Accountability System for Government Information and Collaboration system and strengthen controls over the periodic review of such logs.

2018-033 Controls Should Be Strengthened Regarding Updated Policies and Procedures Relating to Journal Entry Approvals.

Repeat Finding Yes; 2016-017 and 2017-004; Significant Deficiency findings

Criteria *The Internal Control - Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when control activities such as providing adequate policies and procedures to personnel have been implemented. These controls should include accurate and updated controls over how transactions are initiated, authorized, recorded, processed and reported.

Condition During testwork performed for the fiscal year 2018 audit, we noted inadequate documentation of the approval process for journal vouchers was provided. Documentation had not been updated since the implementation of MAGIC and still referenced controls and policies in use in the outdated statewide accounting system.

Cause DFA has not updated their internal policies to reflect changes in the accounting system since the implementation of MAGIC.

Effect Failure to update approved processes could lead to misappropriation of assets and material misstatements in financial statements.

Recommendation We recommend that the Department of Finance and Administration revise and update policies and procedures and that they be distributed to all applicable employees.

SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE

2018-032	<u>The Department of Finance and Administration Should Strengthen Controls Over the Vendor Master File and Issuance of Payments to One Time Vendors to Ensure Compliance with Internal Revenue Service Regulations.</u>
Repeat Finding	Yes; 2015-032, 2016-016, and 2017-003; Significant Deficiency Findings
Criteria	<p>The Department of Finance and Administration (DFA) is responsible for final approval of certain types of warrants issued by the State of Mississippi. These warrants are initially approved at the Agency level and then routed to DFA for final approval. Before warrants can be approved for payment, vendor information must be entered into the State's accounting system – Mississippi's Accountability System for Government Information and Collaboration (MAGIC). Vendors are then assigned a unique numerical identifier so that payments can be documented and an audit trail can be reviewed.</p> <p>Occasionally, warrants need to be issued on a singular basis to vendors. These "one time vendor" warrants are assigned a default vendor number and are not assigned a unique identifier. If, during the course of business, the same vendor requires additional warrants, agencies are required to request vendor information and enter the vendor into the MAGIC system, thereby assigning a unique identifier for future transactions.</p> <p>In order to comply with <i>The Code of Laws of the United States of America</i> (26 U.S.Code Section 6041) regulations on the issuance of payments of \$600 or more, DFA has written policies to prohibit the use of the "one time vendor" distinction for any person or business issued a warrant for over \$600 for services rendered. DFA has classified certain expense general ledger accounts as "1099 vendor accounts" and will not approve warrants to any "one time vendor" when these general ledger accounts are expensed.</p>
Condition	<p>During testwork performed for the fiscal year 2018 audit, we noted the following exceptions:</p> <ul style="list-style-type: none">• 8,750 instances in which the vendors classified as one time vendors were paid multiple warrants from the same state agency; therefore, vendor information was not appropriately requested or entered in the vendor master file.• Vendor master file data was not reviewed to ensure accuracy and completeness.
Cause	DFA does not have adequate controls over the review of vendor master data.
Effect	Failure to periodically review vendor master data to ensure accurate and complete vendor information has been requested and entered can lead to an increased risk of creating fictitious, incorrect, or duplicate payments and a possible misstatement of financial position. Additionally, failure to review one time vendor payments could result in erroneous tax reporting.

Recommendation We recommend that the Department of Finance and Administration strengthen policies over the use of the one-time vendor code and conduct a regular review of the vendor master file to ensure complete and accurate vendor information has been entered.

OTHER CONTROL DEFICIENCY

OTH 18-03 The Department of Finance and Administration Should Strengthen Controls over Cash Reconciliations.

Repeat Finding No.

Criteria *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when control activities, such as cash reconciliations, are performed timely to detect and correct misstatements. Detecting, but not timely correcting, misstatements results in the control activity not operating effectively as is intended by the design of the control.

Condition The Mississippi Department of Finance and Administration (DFA) reconciles cash balances from the Office of the State Treasurer's (Treasury) internal system (QED) to the Mississippi Accountability System for Government Information and Collaboration (MAGIC), the statewide accounting system. Treasury reconciles monthly bank statements to QED, while DFA reconciles QED to MAGIC cash balances.

While performing testwork over DFA's MAGIC cash reconciliations, we noted the agency identified discrepancies between QED and MAGIC for cash and outstanding warrants accounts. However, the agency did not timely correct the discrepancies. A journal entry was made to correct the discrepancy, but was made in the wrong fiscal year, 2019 instead of 2018, causing an overstatement in cash and warrants in the amount of \$10,476,061. Auditor proposed an adjustment, approved by DFA management, to correct the overstatement of cash and warrants outstanding in fiscal year 2018.

Cause DFA is still in the process of designing the cash balance reports since the implementation of MAGIC.

Effect Failure to perform timely reconciliations can result in the possible risk of material misstatement of financial position and fraud.

Recommendation We recommend that the Department of Finance and Administration prepare and provide accurate cash reports to the Office of the State Treasurer, and that controls are strengthened to ensure journal entries are posted in the correct fiscal year.

End of Report



STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION

LAURA D. JACKSON
EXECUTIVE DIRECTOR

April 18, 2019

FINANCIAL AUDIT FINDINGS
or
OTHER AUDIT FINDINGS
or
COMPLIANCE REVIEW FINDINGS

Shad White
Office of the State Auditor
State of Mississippi
Post Office Box 956
Jackson, Mississippi 39205-0956

Dear Mr. White,

In reference to your letter dated March 28, 2019, we submit the following responses and corrective action plans to the financial audit findings for the Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2018.

AUDIT FINDINGS:

MATERIAL WEAKNESSES

Finding Number

2018-007

Finding Description

Strengthen Controls over segregation of Duties in SPAHRS

Response:

We acknowledge the finding.

DFA/MMRS has been sending SPAHRS Quarterly Security reports since 2000. These reports are part of what the Auditor's office would review with the agencies doing agency audits. Later the reports were made available for agency view in FMVIEW. Quarterly notifications are sent to the agencies when a new report is available. In 2018, DFA/MMRS required agencies to sign off on the security

reports. The agency responses are tracked via a spreadsheet. DFA/MMRS continues to email and call agency security contacts that have not returned the acknowledgment form.

The MMRS Security Supervisor checks each form that is processed to ensure it is completed and signed by the agency security contact. The forms are also viewed to ensure that the appropriate access is established. The forms are saved in DFA/MMRS' document management system.

Several of the security forms that were reviewed in the audit were dated as far back as 2000. The original documentation provided signatures, but the documents were not probably scanned. Staff has and continues to ensure that all pages are scanned. Most of the forms today are received electronically; therefore, reducing the risk of human error in scanning the documents.

**Corrective Action
has been taken:**

- A. A policy has been established that agency security contacts must provide written justification if an agency request access for human resource/recording and payroll authorization function access for an individual. This justification is saved in DFA/MMRS' document management system.

DFA employees SPAHRS security has been properly segregated using the PHUSR08 group.

Staff has been instructed to ensure that all pages of the completed forms are stored in the document management system.

- B. Michael Gonzalez is the contact person for this corrective action.

- C. The corrective action was completed on March 27, 2019.

- D. N/A

2018-008

Response:

Strengthen controls over change logs in SPAHRS

We acknowledge the finding.

Turning on the Natural Security logs would require a major upgrade to SPAHRS and would introduce functionality that

has never been utilized, and would be a major change with high risks. DFA is in the process of planning the HR/Payroll implementation of MAGIC and does not want to take on the risk of doing a major change to SPAHRS at this time.

The quarterly security verification process provides a process for agencies to verify new and updated SPAHRS Security requests. Additionally when forms are received by DFA/MMRS, the forms are checked to make sure they are signed, the access requested is appropriate. The requested updates are made in SPAHRS and the forms are electronically signed and filed. The MMRS Security Supervisor verifies that the forms are signed by the agency security contact and all documentation is correct.

Corrective Action:

- A. DFA is beginning the MAGIC Phase II implementation.
- B. Michael Gonzalez is the contact person for this corrective action.
- C. The anticipated completion date of Phase II is July 1, 2022.
- D. N/A

2018-016

Strengthen controls over accounting period close

Response:

We concur with the finding.

The 13 period was opened to delete prior fiscal year parked/abandoned documents from MAGIC during the Lapse Period Close process. The 13 period should have been closed after the documents were deleted, but was not.

Corrective Action:

We are taking the following steps to ensure this does not happen in the future.

- A. Steps have been added to the Lapse Period Close tasks list to take a screenshot of the OB52 table at the beginning and at the end of the list to verify the open periods for the two screenshots match. OFM will confirm on September 1 that only periods 3 and 14 are open.

OFR will add a step to the 13 period closing process to check for parked/abandoned documents prior to closing the period. If documents are found, they will request the agency who created them to delete the documents. If the agency does not respond to the request, OFR or MMRS will delete the documents using a Fire Fighter ID. Once the documents are deleted, OFR will send a request to OFM to proceed with closing the 13th period.

OFM will be responsible for opening and closing all periods. Periods 1 -12 are typically opened and closed through a monthly automated process. Period 13 will be opened by OFM as part of OFM's June 30 year-end processing tasks. Period 13 will be closed and Period 14 will be opened by OFM the day after GAAP packets are due. OFR will notify OFM to close Period 14 on the opinion date of the CAFR.

Only in extreme emergencies, where OFM could not be reached, would MMRS staff utilize a Fire Fighter ID to open or close periods. If such an instance occurs, MMRS will take before and after screenshots. MMRS will notify OFM of the opening and closing and Fire Fighter ID so this information can be added to OFM's log.

- B. Teresa Hayes is the contact person for this corrective action.
- C. The change will be completed by June 30, 2019.
- D. N/A

2018-021

Strengthen process for compiling CAFR and Schedule of Federal Awards

Response:

We concur with the finding.

Corrective Action:

- A. OFR will update the GAAP reporting section of the MAAPP manual to assist GAAP Coordinators in preparing their GAAP packets. OFR will also continue to examine options for more efficient collection of information to reduce GAAP preparation time. In addition, OFR will meet with the Office of the State Auditor to discuss ways to have audit adjustments and

finalized audits sooner.

- B. The contact person responsible for this corrective action is Shondra Barker.
- C. The anticipated implementation for this corrective action plan is June 2019.
- D. N/A

2018-022

Implement written policies relating to accounting and reporting matters

Response

We concur with the finding.

Corrective Action:

- A. The 2018 MAAPP Manual Revision was updated and uploaded to DFA's website as of 12/31/2018. Updates will continue.
- B. The contact person is Lisa Dunn.
- C. It has been completed.
- D. N/A

2018-023

Strengthen process for recording interagency transfers, payables, and receivables

Response:

We concur with the finding.

Effective April, 2019, system edits have been implemented to reduce the amount of reclassification entries needed for transfers. In addition, agencies have been instructed to review outstanding payables and receivables for the interagency activity and to be mindful of coding transactions as transfers.

Corrective Action:

- A. As part of the review of interim financial statements, agencies will be advised to review and adjust receivables and payables balances, if necessary. The relevant DFA offices will review the business process to identify possible changes to the accounting system for interagency transactions.

B. The contact person responsible for this corrective action is Shondra Barker.

C. The anticipated implementation for this corrective action plan is June 2019.

D. N/A

2018-024

CFO qualifications and attend mandatory training

Response:

We acknowledge this finding.

The Department of Finance and Administration (DFA) is the primary agency responsible for state government financial and administrative operations, and we fully accept and embrace the magnitude of that responsibility. However, while DFA is the executive branch control agency over governmental accounting and financial reporting, and in particular, the completion of the annual comprehensive annual financial report, we rely heavily on the cooperation and input of every other state agency to successfully accomplish that task.

We acknowledge that Section 7-7-3 of Miss. Code Ann. (1972) requires DFA to conduct training seminars on a regular basis to ensure that agencies have access to persons proficient in the correct use of the state accounting system. Before implementation of the new statewide system and since that time, we have provided class training, one-on-one personalized training and detailed assistance via the call center to agency personnel to help them understand the processes required for daily workflow. We have training material, work instructions and job aids available on the internet that are easily accessible. In addition to providing training on the state accounting system, we also provide training on GAAP reporting for financial statement preparation. While we have clearly stated that these training sessions are necessary, we continue to have agencies that do not attend.

The finding specifically calls into question the lack of qualifications and skill requirements of agency accounting personnel, and specifically mentions the lack of qualified personnel serving as Chief Fiscal Officers. While we have the responsibility to provide systems to facilitate the financial reporting and operations of the state and to

provide training to employees that use these systems, we do not have the oversight of the hiring or selection of agency employees. Hiring of qualified employees is the responsibility of each state agency head.

Corrective Action:

A. The audit finding recommendation is for DFA to implement mandatory training sessions for accounting personnel and chief fiscal officers.

DFA will continue to provide training opportunities for accounting personnel and chief fiscal officers, and will pursue and provide additional training as funding allows. DFA will also consider requiring attendance, however enforcement of that will be difficult.

B. The contact person responsible for this corrective action is Laura Jackson.

C. The corrective action will be implemented during FY 2019.

D. N/A

2018-030

Segregation of duties in MAGIC

Response:

We acknowledge the finding.

In an effort to provide adequate role definitions for agencies to achieve segregation of duties, DFA/MMRS is in the process of only providing business roles instead of privileges in IDM. This will allow IDM to match the MAGIC Security Roles and Definitions document. The ability for security contacts to assign privileges has been removed.

Corrective Action:

A. DFA/MMRS now requires agencies to sign off on the security reports or have MAGIC access revoked for their entire agency. The agency responses are tracked via a spreadsheet.

DFA/MMRS continues to email and call agency security contacts that have not returned the acknowledgment form.

DFA/MMRS will establish a process for review and verification that the all quarterly forms are received.

- B. Michael Gonzalez is the contact person for this corrective action.
- C. The change will be completed by December 31, 2019.
- D. N/A

SIGNIFICANT DEFICIENCIES

2018-009

Software updates and risk assessment for end-of-life component in SPAHRS

Response:

We acknowledge the finding.

DFA/MMRS is in the process of planning the Phase II MAGIC implementation. The implementation will be done in a phased approach with all agencies implemented over a three-year period.

Corrective Action:

- A. SPAHRS will be decommissioned after all agencies are converted to MAGIC.
- B. Brenda Benson is the contact person for this corrective action.
- C. The anticipated completion date of Phase II is July 1, 2022.
- D. N/A

2018-020

Strengthen controls over security audit logo of MAGIC

Response:

We acknowledge the finding.

DFA/MMRS has addressed this finding through a manual review of the security audit logs to capture unsuccessful user dialog attempts for SAPGUI users in MAGIC. The audit log event classes included in this review were acknowledged by all parties within the final audit response. DFA's internal review process occurs on a weekly basis of the prior week's security log activity report. DFA's assigned reviewer runs transaction SM20 in PEA (ECC), PRA (SRM), and PCA (CRM) to view the log activity report. Security audit log files are exported and saved in Excel format to designated folder location. Each log file is reviewed for patterns/repeated failed logons of users and RFC/function calls. Each finding identified will be addressed with the MAGIC security team and defect created in HPQC, if system modifications are required. This assessment also includes audit configuration change reviews for potential issues. The weekly audit logs are analyzed and the final results are reviewed monthly by the team manager and filed in SharePoint.

Corrective Action:

- A. DFA is in the process of implementing query automation process for these reports to help streamline the review process and reduce the number of manual steps required. Datasets captured within the automation will be reviewed against the audit log data producing a summary of the report findings.
- B. Michael Gonzalez is the contact person for this corrective action.
- C. The change will be completed by December 31, 2019.
- D. N/A

2018-032

Strengthen controls over vendor master file and one-time vendors

Response:

We concur with this finding.

Corrective Action:

- A. DFA has discontinued use of the state-wide one-time vendor number 9000000000 and assigned each agency at least one one-time vendor code to be used for their one-time payments to vendors. It is now the agency's responsibility to ensure that vendors who

receive more than one payment are handled appropriately and are not paid using the agency's one-time vendor number

- B. The contact person is Lisa Dunn
- C. The vendor number 9000000000 was blocked as of 1/31/2019
- D. N/A

2018-033

Strengthen controls over policies and procedures related to journal entry approval.

Response:

We concur with the finding.

Corrective Action:

- A. OFA plans to publish internally these formalized policies and procedures.
- B. Marcus Moore is the contact person for this corrective action.
- C. The anticipated implementation is no later than December, 2019.
- D. N/A

Sincerely,


Laura D. Jackson
Executive Director



STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION
LAURA D. JACKSON
EXECUTIVE DIRECTOR

April 18, 2019

FINANCIAL AUDIT FINDINGS
or
OTHER AUDIT FINDINGS
or
COMPLIANCE REVIEW FINDINGS

Shad White
Office of the State Auditor
State of Mississippi
Post Office Box 956
Jackson, Mississippi 39205-0956

Dear Mr. White,

In reference to your letter dated March 28, 2019, we submit the following response and corrective action plan to the financial audit findings for the Department of Finance and Administration (DFA) for the fiscal year ended June 30, 2018.

AUDIT FINDINGS:

OTHER CONTROL DEFICIENCY

Finding Number

Finding Description

OTH-03

Strengthen controls overs cash reconciliations

Response:

We concur with the finding.

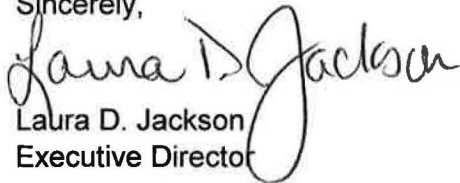
During the November 2017 MAGIC upgrade a daily file remitted by treasury failed to be loaded to MAGIC. An initial adjustment to correct the file was posted using a program within MAGIC on 06/27/2018, but did not successfully clear the warrant open item balances. It was determined subsequently in July 2018 that an additional correction was required and it was posted as an FY 2019 adjustment. As this correction was posted in FY 2019,

warrants outstanding balances still reflected an overstated the amount for FY 2018.

Corrective Action:

- A. Controls have existed in MAGIC since its inception that include warrants payable amounts for the calculation of available net cash. This existing control prevents the possibility of agencies exceeding their available cash balance by the amount of warrants that have not yet been encashed. Additionally, working with MMRS a new procedure has been instituted where OFA/OFM/OFR will review proposed automated adjustments prior to posting when a correcting action is required.
- B. Marcus Moore is the contact person for this corrective action.
- C. This was implemented effective 01/01/2019.
- D. N/A

Sincerely,


Laura D. Jackson
Executive Director